

HARLAN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

| <u>Name</u> | <u>Title</u> (Before September 2011 Election) | <u>Term Expires</u> |
|-------------|--|---------------------|
|-------------|--|---------------------|

Board of Education

| | | |
|-----------------|----------------|------|
| Al Hazelton | President | 2013 |
| Bruce Goeser | Vice President | 2011 |
| Tony Hough | Board Member | 2011 |
| Kathy Mahlberg | Board Member | 2011 |
| Jay Christensen | Board Member | 2013 |
| Lonnie Muxfeldt | Board Member | 2013 |
| Tammy Schwartz | Board Member | 2013 |

(Before September 2011 Election)

Board of Education

| | | |
|-----------------|----------------|------|
| Al Hazelton | President | 2013 |
| Bruce Goeser | Vice President | 2015 |
| Jay Christensen | Board Member | 2013 |
| Lonnie Muxfeldt | Board Member | 2013 |
| Tammy Schwartz | Board Member | 2013 |
| Joni Larsen | Board Member | 2015 |
| Kathy Mahlberg | Board Member | 2015 |

School Officials

| | | |
|-----------------|---------------------------------------|------------|
| Justin Wagner | Superintendent | 2013 |
| Terri Cox | Director of Personnel/Board Secretary | Indefinite |
| John Helling | District Treasurer | Indefinite |
| Brian Gubbels | Director of Finance | Indefinite |
| Richard Schenck | Attorney | Indefinite |

HARLAN COMMUNITY SCHOOL DISTRICT



Diane McGrain, CPA
Jim Menard, CPA

November 26, 2012

INDEPENDENT AUDITORS' REPORT

The Board of Education
Harlan Community School District
Harlan, IA 51537

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Harlan Community School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Harlan Community School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated November 26, 2012, on our consideration of Harlan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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November 26, 2012
Harlan Community School District
Independent Auditors' Report

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 17 and 47 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schraer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 Financial Highlights

- General Fund revenues increased \$345,272 from \$15,556,161 in fiscal 2011 to \$15,901,433 in fiscal 2012, while General Fund expenditures increased \$503,707 from \$13,947,864 in fiscal 2011 to \$14,451,571 in fiscal 2012. The net increase in revenues and increase in expenditures resulted in an increase in the District's General Fund balance from \$3,666,661 in fiscal 2011 to \$5,123,644 in fiscal 2012 which is a 39.7 percent increase from the prior year.
- The increase in General Fund revenues was attributable to increases in property tax revenues, state aid revenue, and open enrollment revenue. The increase in expenditures was due primarily to wages, and employee benefits.
- The District's General Fund financial transactions resulted in the District's solvency ratio to increase from 19.9% for 2011 to 29.1% for 2012. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term obligations. Iowa Association of School Boards, and Iowa Association of School Business Officials recognize a solvency ratio between 8-12% as financially acceptable. The formula for computing solvency ratio was changed with the implementation of the GASB 54 Fund Balance Reporting Requirements. The district lowered its general fund levy for 2013 which will reduce its solvency ratio and unspent budget authority.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Harlan Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harlan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harlan Community School District acts solely as an agent or custodian for the benefit of those outside of County government.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retirees Health Plan.
- Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another

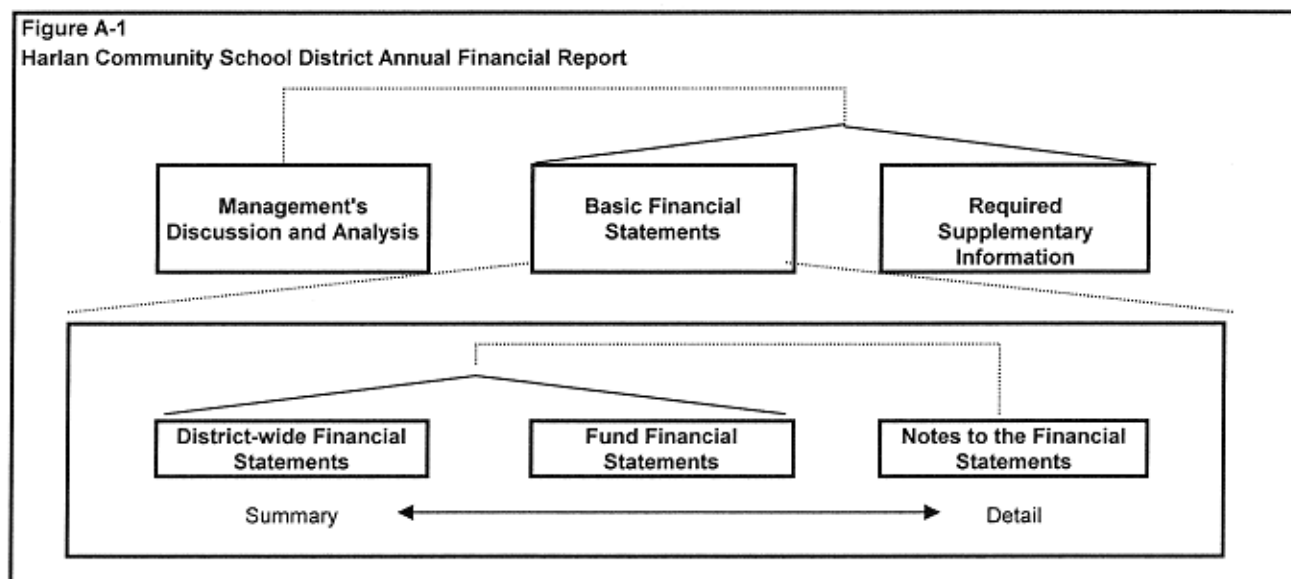


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

| | Government-wide Statements | Fund Statements | | |
|--|--|--|---|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: food services | Instances in which the District administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All additions and reductions during year, regardless of when cash is received or paid |

REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

1. *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District's programs. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

2. *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way the Government-wide statements. The

District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

3. *Fiduciary funds*: The District is the trustee or fiduciary for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2011 and 2012.

| | Figure A-3 Condensed Statement of Net Assets | | | | | | | |
|----------------------------|---|---------------|--------------------------------------|------------|-----------------------------------|---------------|--------------------------|--|
| | Governmental Activities June 30, | | Business-type Activities June 30, | | Total School District June 30, | | Total Change June 30, | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-2012 | |
| Current and other assets | \$ 16,061,068 | \$ 16,067,679 | \$ 489,816 | \$ 436,986 | \$ 16,550,884 | \$ 16,504,665 | 0.3% | |
| Capital assets | 19,086,300 | 19,041,211 | 83,039 | 97,816 | 19,169,339 | 19,139,027 | 0.2% | |
| Total assets | 35,147,368 | 35,108,890 | 572,855 | 534,802 | 35,720,223 | 35,643,692 | 0.2% | |
| Long-term obligations | 13,319,795 | 14,226,811 | -0- | -0- | 13,319,795 | 14,226,811 | (6.4%) | |
| Other liabilities | 8,214,233 | 8,608,631 | 55,958 | 53,314 | 8,270,191 | 8,661,945 | (4.5%) | |
| Total liabilities | 21,534,028 | 22,835,442 | 55,958 | 53,314 | 21,589,986 | 22,888,756 | (5.7%) | |
| Net assets: | | | | | | | | |
| Invested in capital assets | | | | | | | | |
| Net of related debt | 6,176,220 | 6,020,251 | 83,039 | 97,816 | 6,259,259 | 6,118,067 | 2.3% | |
| Restricted | 3,266,545 | 3,475,671 | -0- | -0- | 3,266,545 | 3,475,671 | (6.0%) | |
| Unrestricted | 4,170,575 | 2,777,526 | 433,858 | 383,672 | 4,604,433 | 3,161,198 | 45.7% | |
| Total net assets | \$ 13,613,340 | \$ 12,273,448 | \$ 516,897 | \$ 481,488 | \$ 14,130,237 | \$ 12,754,936 | 10.8% | |

The District's combined net assets increased by 10.8 percent or \$1,375,301 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$209,126 or 6.0 percent from the prior year. The decrease was primarily a result of construction projects being finalized and Physical Plant and Equipment expenditures.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$1,443,235 or 45.7 percent. The increase is the result of revenues exceeding expenditures.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2012.

Figure A-4
Changes in Net Assets

| | Governmental Activities June 30, | | Business-type Activities June 30, | | Total School District June 30, | |
|---|-------------------------------------|--------------|--------------------------------------|------------|-----------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 1,796,916 | \$ 1,721,329 | \$ 441,564 | \$ 405,890 | \$ 2,238,480 | \$ 2,127,219 |
| Operating grants, contributions and restricted interest | 2,413,418 | 2,659,133 | 322,276 | 346,876 | 2,735,694 | 3,006,009 |
| Capital grants, contributions, and restricted interest | 271,924 | 74,028 | -0- | -0- | 271,924 | 74,028 |
| General revenue: | | | | | | |
| Property tax | 6,083,549 | 6,591,766 | -0- | -0- | 6,083,549 | 6,591,766 |
| Local option sales tax | 901,401 | 919,706 | -0- | -0- | 901,401 | 919,706 |
| Unrestricted state grants | 7,045,249 | 5,927,743 | -0- | -0- | 7,045,249 | 5,927,743 |
| Unrestricted investment earnings | 18,789 | 20,401 | 678 | 1,266 | 19,467 | 21,667 |
| Other | 32,677 | 70,876 | -0- | -0- | 32,677 | 70,876 |
| Total revenues | 18,563,923 | 17,984,982 | 764,518 | 754,032 | 19,328,441 | 18,739,014 |
| Program expenses: | | | | | | |
| Governmental activities: | | | | | | |
| Instruction | 10,616,043 | 10,408,470 | -0- | -0- | 10,616,043 | 10,408,470 |
| Support services | 4,570,691 | 4,205,342 | -0- | -0- | 4,570,691 | 4,205,342 |
| Non-instructional programs | -0- | -0- | 729,109 | 678,393 | 729,109 | 678,393 |
| Other expenses | 2,037,297 | 2,021,709 | -0- | -0- | 2,037,297 | 2,021,709 |
| Total expenses | 17,224,031 | 16,635,521 | 729,109 | 678,393 | 17,953,140 | 17,313,914 |
| Change in net assets | \$ 1,339,892 | \$ 1,349,461 | \$ 35,409 | \$ 75,639 | \$ 1,375,301 | \$ 1,425,100 |

Property tax and unrestricted state grants account for 70.7 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 88.2 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$18,563,923 for fiscal 2012 and \$17,984,982 for fiscal 2011. Expenses were \$17,224,031 for fiscal 2012 and \$16,635,521 for fiscal 2011. The District revenue exceeded expenditures resulting in a slight increase in financial position.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, and other expenses.

| Figure A-5 | | | | |
|---|------------------------|---------------|----------------------|---------------|
| Total and Net Cost of Governmental Activities | | | | |
| | Total Cost of Services | | Net Cost of Services | |
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Instruction | \$ 10,616,043 | \$ 10,408,470 | \$ 7,018,967 | \$ 6,732,218 |
| Support services | 4,570,691 | 4,205,342 | 4,504,847 | 4,114,235 |
| Other expenses | 2,037,297 | 2,021,709 | 1,217,959 | 1,334,578 |
| Totals | \$ 17,224,031 | \$ 16,635,521 | \$ 12,741,773 | \$ 12,181,031 |

- The cost financed by users of the District's programs was \$1,796,916 for 2012 and \$1,721,329 for 2011.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,685,342 for 2012 and \$2,733,161 for 2011.
- The net cost of governmental activities was financed with the following:

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|------------------------|----------------------|----------------------|
| Property Taxes | \$ 6,083,549 | \$ 6,591,766 |
| Local Option Sales Tax | \$ 901,401 | \$ 919,706 |
| State Unrestricted | \$ 7,045,249 | \$ 5,927,743 |
| Interest Income | \$ 18,789 | \$ 20,401 |
| Other Revenue | \$ 32,677 | \$ 70,876 |

Business-Type Activities

Revenues of the District's business-type activities were \$764,518 for 2012 and \$754,032 for 2011, and expenses were \$729,109 for 2012 and \$678,393 for 2011. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

Individual Fund Analysis

As previously noted, the Harlan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,605,078 for 2012 and \$7,653,189 for 2011. The primary reason for the increase in combined fund balances in fiscal 2012 is due to total property tax and state aid revenues increasing for the fiscal year more than expenditures increased. The District has seen a slight decrease in enrollment. The District will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover increases in costs.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the product of many factors. The District saw an increase in wages and employee benefits.
- The General Fund balance increased from \$3,666,661 to \$5,123,644 due in part to higher property tax collections and a net overall increase in revenues over expenditures.
- The Capital Project Fund balance decreased from \$3,479,281 to \$2,772,561 due to bond proceeds being expended and higher Physical Plant and Equipment expenditures. Bond proceeds were expended for furnishings and equipment, elementary kitchen renovation, and high school renovations. Due to GASB 54 Fund Balance Reporting Requirements, the Physical Plant and Equipment Levy (PPEL) Fund balance is now included in the Capital Project Fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$481,488 at June 30, 2011 to \$516,897 at June 30, 2012, representing an increase of approximately 7.4%. As previously noted, the District experienced increased sales and federal funding.

Budgetary Highlights

In accordance with the Code of Iowa, The Board of Education annually adopts a budget following required public notice and hearing for all funds, except for internal services, private-purpose trusts and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. The District operated within its certified budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity are included in the required supplementary information section of this report.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the District had invested \$19.17 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year exceeded \$865,377.

The original cost of the District's capital assets was \$27.9 million. Governmental funds account for \$27.7 million with the remainder of \$.2 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the bleacher and tuck-pointing projects, infrastructure upgrade, and purchase of vehicles.

| Figure A-6 | | | | | | | | | |
|-----------------------------------|---------------|----|------------|--------------------------------------|-----------|---------------|---------------|-----------------------|------|
| Governmental Activities | | | | Capital Assets, net of Depreciation | | | | Total School District | |
| June 30, | | | | Business-type Activities June 30, | | | | June 30, | |
| | 2012 | | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | \$ 25,700 | \$ | 25,700 | \$ -0- | \$ -0- | \$ 25,700 | \$ 25,700 | | |
| Improvements other than buildings | \$ 255,736 | \$ | 278,705 | \$ -0- | \$ -0- | \$ 255,736 | \$ 278,705 | | |
| Construction in Progress | \$ -0- | \$ | 133,939 | \$ -0- | \$ -0- | \$ -0- | \$ 133,939 | | |
| Buildings | \$ 17,881,507 | \$ | 17,869,203 | \$ -0- | \$ -0- | \$ 17,881,507 | \$ 17,869,203 | | |
| Furniture and equipment | \$ 923,357 | \$ | 733,664 | \$ 83,039 | \$ 97,816 | \$ 1,006,396 | \$ 831,480 | | |
| Totals | \$ 19,086,300 | \$ | 19,041,211 | \$ 83,039 | \$ 97,816 | \$ 19,169,339 | \$ 19,139,027 | | |

Long-Term Debt

At June 30, 2012 the District had \$13,885,209 general obligation and other long-term debt outstanding. This represents a decrease of approximately 2.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

| | | Figure A-7 | | |
|---------------------------|----|-----------------------------------|------------|--------------|
| | | Outstanding Long-Term Obligations | | |
| | | Total School District | | Total Change |
| | | 2012 | 2011 | 2012-2011 |
| General obligation bonds | \$ | 6,302,458 | 6,748,590 | (6.6) % |
| Revenue Bonds | \$ | 7,240,622 | 7,235,515 | 0.1 % |
| Early retirement benefits | \$ | 282,707 | 195,820 | 44.4 % |
| Compensated absences | \$ | 59,422 | 46,886 | 26.7 % |
| Totals | \$ | 13,885,209 | 14,226,811 | (2.4) % |

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District administration is taking steps to balance the District's revenues and expenditures and keep the District in a healthy financial position.
- The District has seen a slight decrease in enrollment. The District's funding for FY13 will be based on the decreased enrollment.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. It is uncertain whether or not there will be additional reductions made to the fiscal year 2013 budget.
- The District's state wide penny sales tax receipts are sufficient enough to pay the current general obligation and revenue bonds. As a result the District will not assess any property tax levy for debt service repayment.
- The District is in the process of doing an advanced refunding of their general obligation bonds and replacing those bonds with bonds with a lower rate of interest. Projected savings to the district will be between \$300,000 and \$400,000. The refinancing will be complete in December 2012.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Gubbels, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa 51537.

BASIC FINANCIAL STATEMENTS

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012**

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|------------|
| Assets | | | |
| Cash and cash equivalents | \$ 9,568,555 | 472,949 | 10,041,504 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 82,730 | - | 82,730 |
| Succeeding year | 5,231,831 | - | 5,231,831 |
| Accounts | 41,908 | - | 41,908 |
| Accrued interest | 4,049 | - | 4,049 |
| Due from other governments | 1,083,892 | - | 1,083,892 |
| Prepaid expense | 48,103 | - | 48,103 |
| Inventories | - | 16,867 | 16,867 |
| Capital assets, net of accumulated depreciation | 19,086,300 | 83,039 | 19,169,339 |
| Total assets | 35,147,368 | 572,855 | 35,720,223 |
| Liabilities | | | |
| Accounts payable | 187,029 | 53 | 187,082 |
| Salaries and benefits payable | 1,418,885 | 43,616 | 1,462,501 |
| Accrued interest payable | 192,829 | - | 192,829 |
| Deferred revenue: | | | |
| Succeeding year property tax | 5,231,831 | - | 5,231,831 |
| Succeeding year income surtax | 592,413 | - | 592,413 |
| Other | 25,832 | 12,289 | 38,121 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Bonds payable | 470,000 | - | 470,000 |
| Other post employment benefits | 35,992 | - | 35,992 |
| Compensated absences | 59,422 | - | 59,422 |
| Portion due after one year: | | | |
| Bonds payable, net of unamortized discount | 13,073,080 | - | 13,073,080 |
| Other post employment benefits | 246,715 | - | 246,715 |
| Total liabilities | 21,534,028 | 55,958 | 21,589,986 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 6,176,220 | 83,039 | 6,259,259 |
| Restricted for: | | | |
| Categorical funding | 556,244 | - | 556,244 |
| Donated purposes | 54,696 | - | 54,696 |
| Debt service | 1,615,566 | - | 1,615,566 |
| Capital projects | 206,661 | - | 206,661 |
| Physical plant and equipment levy | 126,807 | - | 126,807 |
| Management levy | 545,638 | - | 545,638 |
| Student activities | 160,933 | - | 160,933 |
| Unrestricted | 4,170,575 | 433,858 | 4,604,433 |
| Total net assets | \$ 13,613,340 | 516,897 | 14,130,237 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

| | <u>Expenses</u> | <u>Charges for Service</u> | <u>Program Revenues</u> Operating Grants, Contributions and Restricted Interest |
|---------------------------------------|----------------------|--------------------------------|--|
| Functions/Programs | | | |
| Governmental activities: | | | |
| Instruction: | | | |
| Regular instruction | \$ 6,560,186 | 983,960 | 1,521,861 |
| Special instruction | 2,316,256 | 172,913 | 263,280 |
| Other instruction | 1,739,601 | 629,929 | 25,133 |
| | <u>10,616,043</u> | <u>1,786,802</u> | <u>1,810,274</u> |
| Support services: | | | |
| Student services | 432,328 | - | 11,361 |
| Instructional staff services | 670,513 | - | - |
| Administration services | 1,435,849 | - | - |
| Operation and plant maintenance | 1,233,566 | 7,929 | - |
| Transportation services | 798,435 | 2,185 | 44,369 |
| | <u>4,570,691</u> | <u>10,114</u> | <u>55,730</u> |
| Other expenditures: | | | |
| Facilities acquisition | 234,178 | - | - |
| Long-term debt interest | 608,853 | - | 5 |
| AEA flowthrough | 547,409 | - | 547,409 |
| Depreciation (unallocated)* | 646,857 | - | - |
| | <u>2,037,297</u> | <u>-</u> | <u>547,414</u> |
| Total governmental activities | <u>17,224,031</u> | <u>1,796,916</u> | <u>2,413,418</u> |
| Business-type activities: | | | |
| Non-instructional programs: | | | |
| Nutrition services | 729,109 | 441,564 | 322,276 |
| | <u>729,109</u> | <u>441,564</u> | <u>322,276</u> |
| Total | <u>\$ 17,953,140</u> | <u>2,238,480</u> | <u>2,735,694</u> |
| General Revenues: | | | |
| Property tax levied for: | | | |
| General purposes | | | |
| Capital outlay | | | |
| Statewide sales, services and use tax | | | |
| Unrestricted state grants | | | |
| Unrestricted investment earnings | | | |
| Other | | | |
| Total general revenues | | | |
| Change in net assets | | | |
| Net assets beginning of year | | | |
| Net assets end of year | | | |

* This amount excludes the depreciation that is included in the direct expense of the various programs

| Capital Grants Contributions and Restricted Interest | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---|-----------------------------|--------------|
| | Governmental Activities | Business-Type Activities | Total |
| - | (4,054,365) | - | (4,054,365) |
| - | (1,880,063) | - | (1,880,063) |
| - | (1,084,539) | - | (1,084,539) |
| - | (7,018,967) | - | (7,018,967) |
| - | (420,967) | - | (420,967) |
| - | (670,513) | - | (670,513) |
| - | (1,435,849) | - | (1,435,849) |
| - | (1,225,637) | - | (1,225,637) |
| - | (751,881) | - | (751,881) |
| - | (4,504,847) | - | (4,504,847) |
| 271,924 | 37,746 | - | 37,746 |
| - | (608,848) | - | (608,848) |
| - | - | - | - |
| - | (646,857) | - | (646,857) |
| 271,924 | (1,217,959) | - | (1,217,959) |
| 271,924 | (12,741,773) | - | (12,741,773) |
| - | - | 34,731 | 34,731 |
| 271,924 | (12,741,773) | 34,731 | (12,707,042) |
| \$ | 5,667,938 | - | 5,667,938 |
| | 415,611 | - | 415,611 |
| | 901,401 | - | 901,401 |
| | 7,045,249 | - | 7,045,249 |
| | 18,789 | 678 | 19,467 |
| | 32,677 | - | 32,677 |
| | 14,081,665 | 678 | 14,082,343 |
| | 1,339,892 | 35,409 | 1,375,301 |
| | 12,273,448 | 481,488 | 12,754,936 |
| \$ | 13,613,340 | 516,897 | 14,130,237 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
YEAR ENDED JUNE 30, 2012**

| | General | Capital Projects | Nonmajor | Total |
|--|---------------|---------------------|-----------|------------|
| ASSETS | | | | |
| Assets: | | | | |
| Cash and pooled investments | \$ 6,403,773 | 2,477,282 | 687,500 | 9,568,555 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 71,666 | 5,426 | 5,638 | 82,730 |
| Succeeding year | 4,321,271 | 438,733 | 471,827 | 5,231,831 |
| Accounts | 7,693 | 17,000 | 17,215 | 41,908 |
| Accrued interest | 2,295 | 1,754 | - | 4,049 |
| Due from other governments | 808,284 | 275,608 | - | 1,083,892 |
| Prepaid expenses | 41,444 | - | 6,659 | 48,103 |
| Total assets | \$ 11,656,426 | 3,215,803 | 1,188,839 | 16,061,068 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 174,381 | 4,509 | 8,139 | 187,029 |
| Salaries and benefits payable | 1,418,885 | - | - | 1,418,885 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 4,321,271 | 438,733 | 471,827 | 5,231,831 |
| Succeeding year income surtax | 592,413 | - | - | 592,413 |
| Other | 25,832 | - | - | 25,832 |
| Total liabilities | 6,532,782 | 443,242 | 479,966 | 7,455,990 |
| Fund balances: | | | | |
| Nonspendable - prepaids | 41,444 | - | 6,659 | 48,103 |
| Restricted for: | | | | |
| Categorical funding | 556,244 | - | - | 556,244 |
| Donated purposes | 54,696 | - | - | 54,696 |
| Debt service | - | 1,806,093 | 2,302 | 1,808,395 |
| Capital projects | - | 839,661 | - | 839,661 |
| Physical plant and equipment | - | 126,807 | - | 126,807 |
| Management levy purposes | - | - | 538,979 | 538,979 |
| Student activities | - | - | 160,933 | 160,933 |
| Unassigned | 4,471,260 | - | - | 4,471,260 |
| Total fund balances | 5,123,644 | 2,772,561 | 708,873 | 8,605,078 |
| Total liabilities and fund balances | \$ 11,656,426 | 3,215,803 | 1,188,839 | 16,061,068 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2012**

| | |
|---|----------------------|
| Total fund balances of governmental funds | \$ 8,605,078 |
| <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in the governmental funds. | 19,086,300 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period, and therefore, is not reported as a liability in the governmental funds. | (192,829) |
| Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period, and therefore, are not reported as liabilities of the governmental funds. | <u>(13,885,209)</u> |
| Net assets of governmental activities | \$ <u>13,613,340</u> |

See notes to financial statements

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

| | General | Capital Projects | Nonmajor | Total |
|--|--------------|---------------------|-----------|-------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 5,906,461 | 1,317,012 | 413,374 | 7,636,847 |
| Tuition | 1,077,900 | - | - | 1,077,900 |
| Other | 250,683 | 62,466 | 652,594 | 965,743 |
| State sources | 8,120,950 | 209,689 | 234 | 8,330,873 |
| Federal sources | 545,439 | - | - | 545,439 |
| Total revenues | 15,901,433 | 1,589,167 | 1,066,202 | 18,556,802 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 6,373,592 | 4,605 | 79,820 | 6,458,017 |
| Special instruction | 2,302,080 | - | - | 2,302,080 |
| Other instruction | 1,131,344 | - | 600,330 | 1,731,674 |
| | 9,807,016 | 4,605 | 680,150 | 10,491,771 |
| Support services: | | | | |
| Student services | 432,328 | - | - | 432,328 |
| Instructional staff services | 557,198 | 109,785 | - | 666,983 |
| Administration services | 1,299,477 | - | 126,671 | 1,426,148 |
| Operation and maintenance of plant services | 1,133,128 | 138,906 | 41,736 | 1,313,770 |
| Transportation services | 675,015 | 154,000 | 18,019 | 847,034 |
| | 4,097,146 | 402,691 | 186,426 | 4,686,263 |
| Other expenditures: | | | | |
| Facilities acquisition | - | 835,401 | - | 835,401 |
| Long-term debt: | | | | |
| Principal | - | - | 450,000 | 450,000 |
| Interest and fiscal charges | - | - | 601,190 | 601,190 |
| AEA flowthrough | 547,409 | - | - | 547,409 |
| Total | 547,409 | 835,401 | 1,051,190 | 2,434,000 |
| | 14,451,571 | 1,242,697 | 1,917,766 | 17,612,034 |
| Excess (deficiency) of revenues over (under) expenditures | 1,449,862 | 346,470 | (851,564) | 944,768 |
| Other financing sources (uses): | | | | |
| Sale of fixed assets | 7,121 | - | - | 7,121 |
| Operating transfers in | - | - | 1,053,190 | 1,053,190 |
| Operating transfers out | - | (1,053,190) | - | (1,053,190) |
| Total other financing sources (uses) | 7,121 | (1,053,190) | 1,053,190 | 7,121 |
| Net change in fund balances | 1,456,983 | (706,720) | 201,626 | 951,889 |
| Fund balances beginning of year | 3,666,661 | 3,479,281 | 507,247 | 7,653,189 |
| Fund balances end of year | \$ 5,123,644 | 2,772,561 | 708,873 | 8,605,078 |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds **\$ 951,889**

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|------------------|--------|
| Capital outlays | \$ 894,328 | |
| Depreciation expense | <u>(849,239)</u> | |
| | | 45,089 |

| | |
|---|---------|
| Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. | 450,000 |
|---|---------|

| | |
|--|---------|
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. | (7,663) |
|--|---------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.

| | | |
|--------------------------------|-----------------|-----------------|
| Other post employment benefits | (86,887) | |
| Compensated absences | <u>(12,536)</u> | |
| | | <u>(99,423)</u> |

Change in net assets of governmental activities **\$ 1,339,892**

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012**

| | <u>School Nutrition</u> |
|---|-----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 472,949 |
| Inventories | 16,867 |
| Capital assets, net of accumulated depreciation | <u>83,039</u> |
| Total assets | <u>572,855</u> |
| Liabilities | |
| Accounts payable | 53 |
| Salaries and benefits payable | 43,616 |
| Deferred revenue | <u>12,289</u> |
| Total liabilities | <u>55,958</u> |
| Net Assets | |
| Invested in capital assets | 83,039 |
| Unrestricted | <u>433,858</u> |
| Total net assets | <u>\$ 516,897</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012**

| | <u>School Nutrition</u> |
|------------------------------|-----------------------------|
| Operating revenue: | |
| Local sources: | |
| Charges for service | \$ 441,564 |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 247,328 |
| Benefits | 38,255 |
| Purchased services | 1,186 |
| Supplies | 425,337 |
| Miscellaneous | 865 |
| Depreciation | 16,138 |
| Total operating expenses | <u>729,109</u> |
| Operating loss | (287,545) |
| Non-operating revenue: | |
| State sources | 7,635 |
| Federal sources | 314,641 |
| Interest on investments | 678 |
| Total non-operating revenue | <u>322,954</u> |
| Change in net assets | 35,409 |
| Net assets beginning of year | <u>481,488</u> |
| Net assets end of year | \$ <u>516,897</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012**

| | <u>School Nutrition</u> |
|--|-----------------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 441,133 |
| Cash payments to employees for services | (281,433) |
| Cash payments to suppliers for goods or services | (395,631) |
| Net cash used by operating activities | <u>(235,931)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 7,635 |
| Federal grants received | 277,838 |
| Net cash provided by non-capital financing sources | <u>285,473</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (1,361) |
| Cash flows from investing activities: | |
| Interest on investments | <u>678</u> |
| Net increase in cash and cash equivalents | 48,859 |
| Cash and cash equivalents, beginning of year | <u>424,090</u> |
| Cash and cash equivalents, end of year | \$ <u>472,949</u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (287,545) |
| Commodities used | 36,803 |
| Depreciation | 16,138 |
| Increase in inventories | (3,971) |
| (Decrease) in payables | (1,075) |
| Increase in salaries and benefits payable | 4,150 |
| (Decrease) in deferred revenue | (431) |
| Net cash used by operating activities | \$ <u>(235,931)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received \$36,083 of federal commodities.

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012**

| | Private Purpose Trust <u>Scholarship</u> | <u>Agency</u> |
|-----------------------------|---|---------------|
| Assets | | |
| Cash and pooled investments | \$ 38,448 | \$ 5,771 |
| Liabilities | | |
| Due to other governments | <u>-</u> | <u>5,771</u> |
| Total liabilities | <u>-</u> | <u>5,771</u> |
| Net Assets | | |
| Reserved for scholarships | \$ <u>38,448</u> | \$ <u>-</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012**

| | Private Purpose Trust <u>Scholarship</u> |
|------------------------------|---|
| Additions: | |
| Local sources: | |
| Gifts and contributions | \$ 9,386 |
| Interest income | <u>92</u> |
| Total additions | 9,478 |
| Deductions: | |
| Instruction: | |
| Regular: | |
| Scholarship awarded | <u>10,318</u> |
| Change in net assets | (840) |
| Net assets beginning of year | <u>39,288</u> |
| Net assets end of year | \$ <u>38,448</u> |

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominate agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harlan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation – (continued)

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and all other capital assets.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - (continued)

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting - (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

Cash, Pooled Investments and Cash Equivalents – (continued)

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 1,500 |
| Buildings | 1,500 |
| Improvements other than buildings | 1,500 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other furniture and equipment | 1,500 |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------------------|-------------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20-50 years |
| Furniture and equipment | 5-15 years |

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts not in spendable form, such as inventories and prepaid expenses.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resource are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures in the instruction function exceeded the amount budgeted. The District did not exceed its General Fund unspent authorized budget.

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance, or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 2 Cash and Pooled Investments - Continued

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| <u>Type</u> | <u>Amortized Cost</u> |
|-----------------------|---------------------------|
| Diversified Portfolio | \$ <u>932</u> |

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk

The investment in the Iowa Schools Joint Investment was rated AAA by Moody's Investors Service.

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|---------------------|
| Debt Service | Capital Projects | \$ <u>1,053,190</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources, to the fund statutorily required to expend the resources.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 25,700 | - | - | 25,700 |
| Construction in progress | 133,940 | - | 133,940 | - |
| Total capital assets not being depreciated | 159,640 | - | 133,940 | 25,700 |
| Capital assets being depreciated: | | | | |
| Buildings | 22,416,041 | 548,211 | - | 22,964,252 |
| Improvements other than buildings | 680,639 | - | - | 680,639 |
| Furniture and equipment | 3,466,996 | 480,057 | - | 3,947,053 |
| Total capital assets being depreciated | 26,563,676 | 1,028,268 | - | 27,591,944 |
| Less accumulated depreciation for: | | | | |
| Buildings | 4,546,838 | 535,907 | - | 5,082,745 |
| Improvements other than buildings | 401,934 | 22,969 | - | 424,903 |
| Furniture and equipment | 2,733,333 | 290,363 | - | 3,023,696 |
| Total accumulated depreciation | 7,682,105 | 849,239 | - | 8,531,344 |
| Total capital assets being depreciated, net | 18,881,571 | 179,029 | - | 19,060,600 |
| Governmental activities capital assets, net | \$ 19,041,211 | 179,029 | 133,940 | 19,086,300 |
| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
| Business-type activities: | | | | |
| Furniture and equipment | \$ 255,977 | 1,361 | - | 257,338 |
| Less accumulated depreciation | 158,161 | 16,138 | - | 174,299 |
| Business-type activities capital assets, net | \$ 97,816 | (14,777) | - | 83,039 |

Depreciation expense was charged by the District as follows:

| | |
|--|------------|
| Governmental activities: | |
| Instruction: | |
| Regular | \$ 51,207 |
| Other | 5,753 |
| Support Services: | |
| Student services | 1,611 |
| Administration | 1,197 |
| Operation and maintenance of plant | 41,499 |
| Transportation | 101,115 |
| | 202,382 |
| Unallocated depreciation | 646,857 |
| Total governmental activities depreciation expense | \$ 849,239 |
| Business-type activities: | |
| Food services | \$ 16,138 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|----------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| General obligation bonds | \$ 6,795,000 | - | 450,000 | 6,345,000 | 470,000 |
| Unamortized discount | (46,410) | 3,868 | - | (42,542) | - |
| Revenue bonds | 6,330,000 | - | - | 6,330,000 | - |
| Unamortized discount | (94,485) | 5,107 | - | (89,378) | - |
| Quality Zone Academy bonds | 1,000,000 | - | - | 1,000,000 | - |
| OPEB | 195,820 | 125,784 | 38,897 | 282,707 | 35,992 |
| Compensated absences | 46,886 | 59,422 | 46,886 | 59,422 | 59,422 |
| Total | \$ 14,226,811 | 194,181 | 535,783 | 13,885,209 | 565,414 |

General Obligation Bonds

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issued February 1, 2008 | | | |
|----------------------------|------------------------------|---------------------|---------------------|--------------------------|
| | Interest Rate | Principal | Interest | Discount Amortization |
| 2013 | 3.50% | \$ 470,000 | \$ 236,828 | 3,868 |
| 2014 | 3.50% | 490,000 | 220,378 | 3,868 |
| 2015 | 3.50% | 510,000 | 203,228 | 3,868 |
| 2016 | 3.50% | 530,000 | 185,378 | 3,868 |
| 2017 | 3.60% | 550,000 | 166,828 | 3,868 |
| 2018-2022 | 3.70-4.00% | 3,100,000 | 510,945 | 19,340 |
| 2023 | 4.00% | 695,000 | 27,800 | 3,862 |
| | | <u>\$ 6,345,000</u> | <u>\$ 1,551,385</u> | <u>42,542</u> |

Revenue Bonds

Details of the District's June 30, 2012 statewide sales, service & use tax revenue bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issued May 1, 2009 | | Total | |
|----------------------------|-------------------------|---------------------|---------------------|--------------------------|
| | Interest Rate | Principal | Interest | Discount Amortization |
| 2013 | \$ - | \$ - | \$ 346,185 | \$ 5,107 |
| 2014 | - | - | 346,185 | 5,107 |
| 2015 | - | - | 346,185 | 5,107 |
| 2016 | 5.00% | 85,000 | 344,060 | 5,107 |
| 2017 | 5.00% | 90,000 | 339,685 | 5,107 |
| 2018-2022 | 5.00-5.10% | 525,000 | 1,623,993 | 25,535 |
| 2023-2027 | 5.25-5.50% | 2,390,000 | 1,334,650 | 25,535 |
| 2028-2030 | 5.63% | 3,240,000 | 341,719 | 12,773 |
| | | <u>\$ 6,330,000</u> | <u>\$ 5,022,662</u> | <u>\$ 89,378</u> |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 5 Long-Term Liabilities (continued)

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,330,000 bonds issued in May 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the note is \$11,352,662. For the current year, interest paid on the bonds and total statewide sales, services and use tax revenue were \$346,185 and \$901,401, respectively.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$633,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The accrued interest on the revenue bond proceeds shall be placed into a sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has complied with the above provisions.

Qualified Zone Academy Bond

During the year ended June 30, 2002, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers of \$58,455 are made to an escrow agent to pay the indebtedness due November 11, 2015, of \$1,000,000. Bond proceeds are to be used only for the equipping, rehabilitation and repairs of the school designated as the "Qualified Zone Academy." The school is in compliance with the above provisions.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 6 Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$730,241, \$639,303, and \$669,636, respectively, equal to the required contributions for each year.

NOTE 7 Termination Benefits

In January 2012, the District approved a voluntary early retirement plan for employees. The plan was offered for one year. Eligible employees must have completed at least 10 years of full time service to the District, must have reached the age of fifty-five by June 30, 2011, and be first year eligible for IPERS benefits. The retirement benefit equaled a one-time payment of \$20,000 to a deferred plan on behalf of each electing employee. Three employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2012 totaled \$60,000, with no liability outstanding.

NOTE 8 Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. The District pays for all or a portion of active employees' coverage. Retired members can continue their coverage at their own expense and also receive an explicit subsidy of \$83 per month staying within plan coverage and \$168 per month if they elect to discontinue coverage within the district plan. There are 113 active and 19 retired members in the plan, and 4 retirees elected coverage outside the plan. Participants must be age 55 or older at retirement.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 9 Other Postemployment Benefits (OPEB) – Continued

The medical and prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical and prescription drug benefit as active employees, which results in an implicit subsidy. The OPEB liability includes both the explicit and the implicit subsidies.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|------------|
| Annual required contribution | \$ 130,020 |
| Interest on net OPEB obligation | 4,896 |
| Adjustment to annual required contribution | (9,132) |
| Annual OPEB cost | 125,784 |
| Contributions made | (38,897) |
| Increase in net OPEB obligation | 86,887 |
| Net OPEB obligation, beginning of year | 195,820 |
| Net OPEB obligation, end of year | \$ 282,707 |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District made an explicit contribution of \$23,166 and an implicit contribution of \$15,731 to the medical plan. Plan members eligible for benefits contributed \$76,532, or 80% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------------------|---------------------|--|------------------------|
| 2010 | \$ 100,757 | 36.7 % | \$ 126,492 |
| 2011 | 101,287 | 31.5 % | 195,820 |
| 2012 | 125,784 | 44.5 % | 282,707 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 9 Other Postemployment Benefits (OPEB) – Continued

Funding Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$890,439, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$890,439. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,736,000, and the ratio of the UAAL to covered payroll was 10.19%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

The most recent aging curve study was presented by the Society of Actuaries in February 2006. This study provided the basis for the "aging cost assumption" used in the valuation.

Projected claim costs of the medical plan are \$419 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 10 Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$547,409 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

NOTE 11 Categorical Funding

The District ending balances for categorical funding by project as of the year ended June 30, 2012 are as follows:

| <u>Project</u> | <u>Amount</u> |
|--|-------------------|
| Limited English proficiency | \$ 48,943 |
| Home school assistance | 134,699 |
| At-risk formula supplementary weighting | 122,973 |
| Gifted and talented | 116,990 |
| Dropout prevention | 2,602 |
| Beginning administrator mentoring | 2,427 |
| Textbook aid – non-public students | 324 |
| Voluntary preschool | 583 |
| Model core curriculum | 66,402 |
| Teacher quality professional development | <u>60,301</u> |
| | \$ <u>556,244</u> |

NOTE 12 Subsequent Event

In October 2012, the District approved the issuance of \$5,010,000 General Obligation School Refunding Bonds to advance refund the February 2008 bond issuance.

REQUIRED SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN BALANCES - BUDGET AND ACTUAL -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

| | Governmental Fund Types Actual | Proprietary Fund Types Actual | Total Actual |
|---|--------------------------------------|-------------------------------------|-------------------|
| Receipts: | | | |
| Local sources | \$ 9,680,490 | 442,242 | 10,122,732 |
| State sources | 8,330,873 | 7,635 | 8,338,508 |
| Federal sources | 545,439 | 314,641 | 860,080 |
| Total receipts | <u>18,556,802</u> | <u>764,518</u> | <u>19,321,320</u> |
| Disbursements: | | | |
| Instruction | 10,491,771 | - | 10,491,771 |
| Support services | 4,686,263 | - | 4,686,263 |
| Non-instructional programs | - | 729,109 | 729,109 |
| Other expenditures | 2,434,000 | - | 2,434,000 |
| Total disbursements | <u>17,612,034</u> | <u>729,109</u> | <u>18,341,143</u> |
| Excess (deficiency) of receipts over (under) disbursements | 944,768 | 35,409 | 980,177 |
| Other financing sources, net | <u>7,121</u> | <u>-</u> | <u>7,121</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 951,889 | 35,409 | 987,298 |
| Balances beginning of year | <u>7,653,189</u> | <u>481,488</u> | <u>8,134,677</u> |
| Balances end of year | <u>\$ 8,605,078</u> | <u>516,897</u> | <u>9,121,975</u> |

See Accompanying Independent Auditors' Report

| Budgeted Amounts | | Final to Actual Variance Positive (Negative) |
|------------------|-------------|--|
| Original | Final | |
| 9,463,031 | 9,463,031 | 659,701 |
| 8,143,223 | 8,143,223 | 195,285 |
| 571,000 | 571,000 | 289,080 |
| 18,177,254 | 18,177,254 | 1,144,066 |
| 10,485,000 | 10,485,000 | (6,771) |
| 5,427,605 | 5,427,605 | 741,342 |
| 750,000 | 750,000 | 20,891 |
| 3,934,784 | 3,934,784 | 1,500,784 |
| 20,597,389 | 20,597,389 | 2,256,246 |
| (2,420,135) | (2,420,135) | 3,400,312 |
| 800 | 800 | 6,321 |
| (2,419,335) | (2,419,335) | 3,406,633 |
| 7,513,680 | 7,513,680 | 620,997 |
| 5,094,345 | 5,094,345 | 4,027,630 |

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2012, expenditures in the instruction function exceeded the amount budgeted. The District did not exceed its General Fund unspent authorized budget.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012**

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 2010 | 07/01/08 | \$ - | \$ 903 | \$ 903 | 0.0% | \$ 9,736 | 9.23% |
| 2011 | 07/01/08 | \$ - | \$ 675 | \$ 675 | 0.0% | \$ 8,890 | 7.59% |
| 2012 | 07/01/11 | \$ - | \$ 890 | \$ 890 | 0.0% | \$ 8,736 | 10.19% |

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

| | Special Revenue | | | |
|------------------------------------|---------------------|---------------------|-----------------|------------------|
| | Management Levy | Student Activity | Debt Service | Total |
| Assets | | | | |
| Assets: | | | | |
| Cash and pooled investments | \$ 533,341 | 151,857 | 2,302 | 687,500 |
| Receivables: | | | | |
| Property Tax: | | | | |
| Delinquent | 5,638 | - | - | 5,638 |
| Succeeding year | 471,827 | - | - | 471,827 |
| Accounts | - | 17,215 | - | 17,215 |
| Prepaid expenses | 6,659 | - | - | 6,659 |
| Total assets | <u>\$ 1,017,465</u> | <u>169,072</u> | <u>2,302</u> | <u>1,188,839</u> |
| Liabilities and Fund Equity | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | 8,139 | - | 8,139 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 471,827 | - | - | 471,827 |
| Total liabilities | 471,827 | 8,139 | - | 479,966 |
| Fund balances: | | | | |
| Nonspendable-prepays | 6,659 | - | - | 6,659 |
| Restricted for: | | | | |
| Management levy purposes | 538,979 | - | - | 538,979 |
| Student activities | - | 160,933 | - | 160,933 |
| Debt service | - | - | 2,302 | 2,302 |
| Total fund balances | 545,638 | 160,933 | 2,302 | 708,873 |
| Total liabilities and fund equity | <u>\$ 1,017,465</u> | <u>169,072</u> | <u>2,302</u> | <u>1,188,839</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

| | Special Revenue | | | |
|--|--------------------|---------------------|-----------------|-----------|
| | Management Levy | Student Activity | Debt Service | Total |
| Revenues: | | | | |
| Local sources: | | | | |
| Local Tax | \$ 413,374 | - | - | 413,374 |
| Other | 22,308 | 630,281 | 5 | 652,594 |
| State sources | 234 | - | - | 234 |
| Total revenues | 435,916 | 630,281 | 5 | 1,066,202 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 79,820 | - | - | 79,820 |
| Other instruction | - | 600,330 | - | 600,330 |
| | 79,820 | 600,330 | - | 680,150 |
| Support services: | | | | |
| Administration services | 126,671 | - | - | 126,671 |
| Operation and maintenance of plant services | 39,736 | - | 2,000 | 41,736 |
| Transportation services | 18,019 | - | - | 18,019 |
| | 184,426 | - | 2,000 | 186,426 |
| Other expenditures: | | | | |
| Long-term debt: | | | | |
| Principal | - | - | 450,000 | 450,000 |
| Interest and fiscal charges | - | - | 601,190 | 601,190 |
| | - | - | 1,051,190 | 1,051,190 |
| Total expenditures | 264,246 | 600,330 | 1,053,190 | 1,917,766 |
| Excess (deficiency) of revenues over (under) expenditures | 171,670 | 29,951 | (1,053,185) | (851,564) |
| Other financing sources: | | | | |
| Operating transfers in | - | - | 1,053,190 | 1,053,190 |
| Net changes in fund balances | 171,670 | 29,951 | 5 | 201,626 |
| Fund balances beginning of year | 373,968 | 130,982 | 2,297 | 507,247 |
| Fund balances end of year | \$ 545,638 | 160,933 | 2,302 | 708,873 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2012**

| | Capital Projects | | |
|--------------------------------------|---|---|-----------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| Assets | | | |
| Assets: | | | |
| Cash and pooled investments | \$ 1,369,368 | 1,107,914 | 2,477,282 |
| Receivables | | | |
| Property tax: | | | |
| Delinquent | - | 5,426 | 5,426 |
| Succeeding year | - | 438,733 | 438,733 |
| Accounts | - | 17,000 | 17,000 |
| Accrued interest | 778 | 976 | 1,754 |
| Due from other governments | 275,608 | - | 275,608 |
| Total assets | \$ 1,645,754 | 1,570,049 | 3,215,803 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 4,509 | 4,509 |
| Deferred revenue: | | | |
| Succeeding year property tax | - | 438,733 | 438,733 |
| Total liabilities | - | 443,242 | 443,242 |
| Fund balances: | | | |
| Restricted for: | | | |
| Debt service | 806,093 | 1,000,000 | 1,806,093 |
| Capital projects | 839,661 | - | 839,661 |
| Physical plant and equipment | - | 126,807 | 126,807 |
| Total fund balances | 1,645,754 | 1,126,807 | 2,772,561 |
| Total liabilities and fund balances | \$ 1,645,754 | 1,570,049 | 3,215,803 |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2012**

| | Capital Projects | | | |
|--|---|---|------------------------------|-------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Other Capital Projects | Total |
| Revenues: | | | | |
| Local sources: | | | | |
| Local Tax | \$ 901,401 | 415,611 | - | 1,317,012 |
| Other | 38,088 | 24,294 | 84 | 62,466 |
| State sources | 209,458 | 231 | - | 209,689 |
| Total revenues | 1,148,947 | 440,136 | 84 | 1,589,167 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | - | 4,605 | - | 4,605 |
| | - | 4,605 | - | 4,605 |
| Support services: | | | | |
| Instructional staff services | - | 109,785 | - | 109,785 |
| Operation and maintenance of plant services | - | 138,906 | - | 138,906 |
| Transportation services | - | 154,000 | - | 154,000 |
| | - | 402,691 | - | 402,691 |
| Other expenditures: | | | | |
| Facilities acquisition | - | 259,795 | 575,606 | 835,401 |
| Total expenditures | - | 667,091 | 575,606 | 1,242,697 |
| Excess (deficiency) of revenues over (under) expenditures | 1,148,947 | (226,955) | (575,522) | 346,470 |
| Other financing (uses): | | | | |
| Operating transfers out | (1,053,190) | - | - | (1,053,190) |
| Total other financing (uses) | (1,053,190) | - | - | (1,053,190) |
| Net changes in fund balances | 95,757 | (226,955) | (575,522) | (706,720) |
| Fund balances beginning of year | 1,549,997 | 1,353,762 | 575,522 | 3,479,281 |
| Fund balances end of year | \$ 1,645,754 | 1,126,807 | - | 2,772,561 |

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

| | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|------------------------------------|---------------------------------|----------|--------------|---------------------------|
| Drama | \$ 1,759 | 1,235 | 1,644 | 1,350 |
| HS vocal music | 203 | 5,429 | 5,632 | - |
| MS vocal music | 720 | 1,038 | 253 | 1,505 |
| HS instrumental music | 592 | 6,723 | 7,315 | - |
| HS jazz | - | 2,238 | 2,238 | - |
| MS jazz | 217 | 1 | - | 218 |
| MS flag corp | 49 | - | - | 49 |
| HS flag corp | 16 | 1,115 | 598 | 533 |
| Athletics | 2,858 | 212,174 | 212,050 | 2,982 |
| Activity tickets | - | 11,586 | 11,586 | - |
| Splash splash auto detailing | 1,686 | 1,238 | 1,437 | 1,487 |
| FB Holocaust memorial rock project | 973 | 2 | - | 975 |
| Cheerleaders | - | 8,435 | 4,771 | 3,664 |
| FFA | 13,436 | 88,813 | 75,581 | 26,668 |
| Harpoon | 23,715 | 9,318 | 5,443 | 27,590 |
| Entrepreneurial vending | 123 | 8,415 | 7,798 | 740 |
| National honor society | - | 1,644 | 1,295 | 349 |
| BPA | 378 | 23,339 | 23,717 | - |
| Science club | 5 | - | - | 5 |
| Spanish club | 2,629 | 392 | 687 | 2,334 |
| Student council | 254 | 15,867 | 16,121 | - |
| Pom pom | - | 4,103 | 2,580 | 1,523 |
| Destination imagination | 377 | 752 | - | 1,129 |
| Key Club | 3,016 | 1,976 | 1,483 | 3,509 |
| For the birds | 1,100 | 712 | 1,337 | 475 |
| Speech | - | 240 | 240 | - |
| FCCLA Club | 1,659 | 2,997 | 2,456 | 2,200 |
| Friends of Rachele | 1,704 | 4 | - | 1,708 |
| Class of 2010 | 105 | - | - | 105 |
| Class of 2011 | 3,495 | - | - | 3,495 |
| Class of 2012 | 2,036 | - | - | 2,036 |
| Class of 2013 | 1,050 | - | - | 1,050 |
| Support the troops | - | 115 | 115 | - |
| Prom | 3,043 | 14,621 | 16,780 | 884 |
| HS miscellaneous | 189 | 2,483 | 1,932 | 740 |
| Hosa fund | 1,035 | 53,176 | 47,979 | 6,232 |
| Jel fund | 581 | 627 | 300 | 908 |
| Cyclone corner store | 6,038 | 75,266 | 77,913 | 3,391 |
| Concessions | 11,130 | 26,846 | 32,169 | 5,807 |
| Vending | 5,027 | 7,553 | 4,765 | 7,815 |
| MS cheerleading | 2,515 | 1,347 | 868 | 2,994 |
| MS vending | 2,821 | 231 | - | 3,052 |
| MS student council | 15,808 | 18,081 | 18,097 | 15,792 |
| MS yearbook | 4,218 | 3,536 | 2,834 | 4,920 |
| MS drama | 484 | 1 | - | 485 |
| MS building improvements | 748 | 2 | - | 750 |
| MS builders fund | 310 | 1 | - | 311 |
| MS student fund | 4,422 | 8,178 | 5,025 | 7,575 |
| New Park student fund | 5,068 | 7,523 | 4,903 | 7,688 |
| West Ridge student fund | 2,792 | 907 | 388 | 3,311 |
| West Ridge student store | 598 | 1 | - | 599 |
| Total | \$ 130,982 | 630,281 | 600,330 | 160,933 |

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2012

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|--------------------------|---------------------------------|--------------|--------------|---------------------------|
| Assets | | | | |
| Cash | \$ 4,880 | 1,914 | 1,023 | 5,771 |
| Total assets | <u>4,880</u> | <u>1,914</u> | <u>1,023</u> | <u>5,771</u> |
| Liabilities | | | | |
| Due to other governments | 4,880 | 1,914 | 1,023 | 5,771 |
| Total liabilities | <u>\$ 4,880</u> | <u>1,914</u> | <u>1,023</u> | <u>5,771</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURE BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST EIGHT YEARS**

| | | Modified | | |
|---|----|-------------------|-------------------|-------------------|
| | | 2012 | 2011 | 2010 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local Tax | \$ | 7,636,847 | 7,512,198 | 6,342,488 |
| Tuition | | 1,077,900 | 1,044,614 | 990,705 |
| Other | | 965,743 | 853,217 | 948,330 |
| State sources | | 8,330,873 | 7,794,654 | 6,996,289 |
| Federal sources | | 545,439 | 736,524 | 1,290,479 |
| Total | \$ | <u>18,556,802</u> | <u>17,941,207</u> | <u>16,568,291</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ | 6,458,017 | 6,561,370 | 7,223,885 |
| Special instruction | | 2,302,080 | 2,025,680 | 1,816,504 |
| Other instruction | | 1,731,674 | 1,701,138 | 1,919,532 |
| Support services: | | | | |
| Student services | | 432,328 | 375,374 | 654,989 |
| Instructional staff services | | 666,983 | 371,410 | 372,660 |
| Administration services | | 1,426,148 | 1,495,949 | 1,551,890 |
| Operation and maintenance of plant services | | 1,313,770 | 1,196,590 | 1,115,072 |
| Transportation services | | 847,034 | 726,086 | 799,634 |
| Other support services | | - | 3,997 | - |
| Non-instructional programs | | - | - | - |
| Other expenditures: | | | | |
| Facilities acquisition | | 835,401 | 1,584,854 | 4,952,994 |
| Long-term debt: | | | | |
| Principal | | 450,000 | 435,000 | 420,000 |
| Interest and fiscal charges | | 601,190 | 613,336 | 511,790 |
| AEA flowthrough | | 547,409 | 613,093 | 615,639 |
| Total | \$ | <u>17,612,034</u> | <u>17,703,877</u> | <u>21,954,589</u> |

| Accrual Basis | | | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2009 | 2008 | 2007 | 2006 | 2005 |
| 5,837,085 | 5,715,871 | 4,475,863 | 5,143,601 | 4,779,429 |
| 921,478 | 875,705 | 1,163,555 | 1,018,745 | 749,905 |
| 1,089,363 | 1,101,418 | 2,003,624 | 1,125,999 | 901,406 |
| 8,203,024 | 7,994,997 | 7,621,498 | 7,045,015 | 6,597,218 |
| 434,184 | 410,350 | 464,915 | 567,328 | 645,349 |
| <u>16,485,134</u> | <u>16,098,341</u> | <u>15,729,455</u> | <u>14,900,688</u> | <u>13,673,307</u> |
| 6,921,935 | 6,640,200 | 6,094,933 | 5,697,085 | 5,467,395 |
| 2,073,664 | 1,955,078 | 2,305,201 | 2,055,594 | 1,490,215 |
| 1,642,187 | 1,562,230 | 1,429,800 | 1,404,287 | 1,561,313 |
| 652,071 | 544,349 | 432,183 | 490,975 | 519,832 |
| 393,717 | 401,968 | 420,718 | 353,555 | 316,907 |
| 1,423,483 | 1,344,138 | 1,253,482 | 1,244,337 | 1,053,037 |
| 1,131,622 | 1,139,891 | 1,080,158 | 1,048,294 | 1,328,061 |
| 803,370 | 697,317 | 800,819 | 689,655 | 526,169 |
| - | 969 | - | - | - |
| - | - | - | - | 44 |
| 7,058,375 | 662,735 | 269,496 | 375,293 | - |
| 545,000 | 714,900 | 699,909 | 669,659 | 653,396 |
| 413,796 | 47,680 | 43,324 | 70,377 | 119,264 |
| 560,644 | 519,167 | 498,288 | 458,259 | 449,820 |
| <u>23,619,864</u> | <u>16,230,622</u> | <u>15,328,311</u> | <u>14,557,370</u> | <u>13,485,453</u> |

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

| Grantor/Program | CFDA Number | Grant Number | Expenditures |
|---|----------------|-----------------|-------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY12 | 42,076 |
| National School Lunch Program | 10.555 | FY12 | 272,565 * |
| | | | <u>314,641</u> |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title 1 Grants to Local Educational Agencies | 84.010 | FY12 | 172,761 |
| Our Kids | 84.215 | FY12 | 264 |
| Title IIA-Teacher Quality Program | 84.367 | FY12 | 49,964 |
| Title IVA – Grants for State Assessments | 84.369 | FY12 | 10,845 |
| Education Jobs Fund | 84.410 | FY12 | 211,290 |
| Green Hills Area Education Agency: | | | |
| Special Education – Grants to State | 84.027 | FY12 | 79,411 |
| Vocational Education – Basic Grants to States | 84.048 | FY12 | 9,543 |
| | | | <u>848,719</u> |
| Total | | | \$ <u>848,719</u> |

* Includes \$36,083 of non cash awards

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan Community School District. The financial statements of the School District are presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



Diane McGrain, CPA
Jim Menard, CPA

November 26, 2012

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with Government Auditing Standards**

The Board of Education of
Harlan Community School District
Harlan, IA 51537

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund balance information of the Harlan Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Harlan Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Harlan Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harlan Community School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Continued. . .

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November 26, 2012
Harlan Community School District
Internal Control and Compliance Report

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Harlan Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Harlan Community School District, and other parties to whom the Harlan Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schaefer & Associates, P.C.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



Diane McGrain, CPA
Jim Menard, CPA

November 26, 2012

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over Compliance
In Accordance With OMB Circular A-133**

To Board of Education of
Harlan Community School District
Harlan, IA 51537

Compliance

We have audited the compliance of Harlan Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. Harlan Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harlan Community School District's management. Our responsibility is to express an opinion on Harlan Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harlan Community School District's compliance with those requirements.

In our opinion, Harlan Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Continued. . .

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Internal Control Over Compliance

The management of Harlan Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Harlan Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of Harlan Community School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as described above.

Harlan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit the District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harlan Community School District and other parties to whom Harlan Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schroer & Associates, P.C.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies or material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - Individual program
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harlan Community School District did not qualify as a low-risk auditee.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses were noted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses in internal control over the major programs were noted.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-12 Certified Budget

Comment – Expenditures for the year ended June 30, 2012 exceed the certified budget amount in the instruction function.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

IV-B-12 Questionable Expenditures

No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-12 Travel Expense

No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-12 Business Transactions

Business transactions between the District and District officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|---|---------------|
| Kathy Chamberlain and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber | Building repairs and maintenance supplies | \$ 12,071 |
| Mike Bierl, employee, owner of Same Printing | T-shirts | \$ 4,920 |
| Sandy Leinen, employee, owner of Drivers Education and Safety Training LLC | Purchased services | \$ 26,010 |

In accordance with Iowa State Code 279.7A, the above transactions are not with board members and do not appear to represent a conflict of interest.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-E-12 Bond Coverage

Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-12 Board Minutes

No transactions were found that we believe should have been approved by the Board minutes, but were not.

IV-G-12 Certified Enrollment

Comment – We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 as resident students was overstated by 2.40 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion – Response accepted.

IV-H-12 Supplemental Weighting

No variances regarding the supplemental weighting certified to the Department of Education were noted.

IV-I-12 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-12 Certified Annual Report

The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-12 Categorical Funding

No instances were noted of categorical funding used to supplant rather than supplement other funds.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-L-12 Statewide Sales and Services Tax

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

| | |
|--------------------------------|---------------------|
| Beginning balance | \$ 1,549,997 |
| Revenues/transfers in: | |
| Sales tax revenues | 901,401 |
| Other local revenues | 38,088 |
| State revenues | 209,458 |
| | <u>1,148,947</u> |
| | 2,698,944 |
| Expenditures/transfers out: | |
| Transfers to debt service fund | <u>1,053,190</u> |
| Ending balance | \$ <u>1,645,754</u> |

For the year ended June 30, 2012, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

| | Per \$1,000 of Taxable Valuation | Property Tax Dollars |
|-------------------|--|----------------------------|
| Debt service levy | \$ 2.59 | \$ 1,053,190 |

IV-M-12 Revenue Bonds

The District is in compliance with the provisions of the revenue bond resolution.